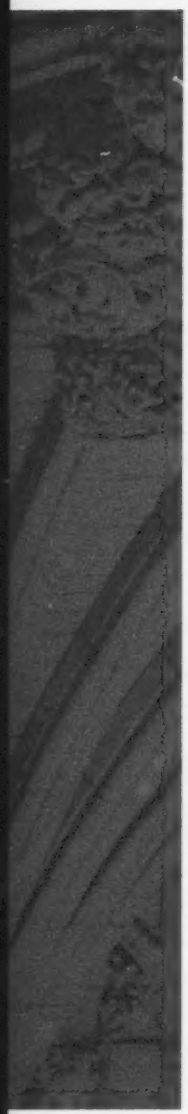

CANADA

OFFICE OF THE
PARLIAMENTARY
BUDGET OFFICER

BUREAU DU DIRECTEUR
PARLEMENTAIRE DU
BUDGET

The Government's Expenditure Plan and Main Estimates for 2018-19

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The Parliamentary Budget Officer (PBO) supports Parliament by providing analysis, including analysis of macro-economic and fiscal policy, for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This note examines the federal government's Expenditure Plan and Main Estimates for 2018-19, which supports the second appropriation bill that will seek Parliament's approval of $112.9 billion.

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Table of Contents

Executive Summary 1

1. Introduction 3

1.1. Expenditure Plan and Main Estimates – Overview 3

2. Estimates Reform 5

2.1. Alignment with Departmental Plans 7

3. Major Expenditures 8

3.1. Infrastructure Spending 8
3.2. Federal Spending on Health Care and Elderly Benefits 9

Notes 12

Executive Summary

The 2018-19 Main Estimates supports the second appropriation bill for the current fiscal year. It follows the 2018-19 Interim Estimates, which was tabled in Parliament on February 12th, 2018, to ensure sufficient spending authorities are available for the start of the fiscal year.

The Government's Expenditure Plan and Main Estimates for 2018-19 outline $276 billion in total budgetary spending authorities. This represents an increase of approximately $18.1 billion (7.0 percent) compared to the total budgetary authorities identified in the 2017-18 Main Estimates, and an increase of $5.7 billion (2.1 percent) in comparison to the 2017-18 Estimates to date. Parliament is responsible for voting on $112.9 billion of these budgetary authorities.

Budgetary statutory authorities are projected to be $163.1 billion in 2018-19, which is an increase of $7.2 billion (4.6 percent) compared to the total estimated statutory spending in 2017-18. Elderly Benefits and the Canada Health Transfer (CHT) are two of the largest contributors to this increase, and are set to rise by $2.6 billion (5.1 percent) and $1.4 billion (3.9 percent), respectively.

The Government delayed tabling the 2018-19 Main Estimates by several weeks to ensure better alignment between the Budget and Estimates. While the Government has included a new Budget Implementation Vote for $7.0 billion, the initiatives to be funded through this vote are not reflected in the Departmental Plans. Hence, there remains a lack of alignment between the Budget initiatives and planned results.

The Government's approach to funding Budget 2018 initiatives provides parliamentarians with information that only marginally supports their deliberations and places fewer controls around the money it approves.

With respect to the former, virtually none of the money requested in the new Budget Implementation vote has undergone scrutiny through the standard Treasury Board Submission process, which as indicated by the Government, is to "ensure resources are directed to programs and activities that remain government priorities and achieve value for money."[1] With respect to the latter, it is unclear that the proposed vote wording would restrict the Government to funding each Budget 2018 measure in the amount set out in the Budget Plan for each Department and Agency, rather than changing the allocations across any initiative mentioned in Budget 2018.

Ultimately, parliamentarians will need to judge whether the Government's most recent efforts to align the Budget and the Estimates results in an

improvement in their oversight role, and if they are willing to accept incomplete information and weaker spending controls to help the Government to expedite the implementation of Budget measures.

As the President of the Treasury Board and PBO have noted previously, a significant part of Budget implementation delays stem from the Government's own internal processes. Were these to be streamlined, the Government would be able to spend money more quickly, without the need for Parliament to cede information and control. It is unclear what the Government intends to do to address this issue.

1. Introduction

The Government is required to receive either voted or statutory authority from Parliament to spend money from the Consolidated Revenue Fund. Voted authorities are approved annually by Parliament through an appropriation bill, while statutory authorities have already been approved though previously adopted legislation, such as Old Age Security benefits paid under the authority of the *Old Age Security Act*. [2]

The 2018-19 Main Estimates supports the second appropriation bill for the current fiscal year. It follows the 2018-19 Interim Estimates, which was tabled in Parliament on February 12th, 2018, to ensure sufficient spending authorities are available for the start of the fiscal year. Historically, these first two appropriation bills seek authority for most of the total spending in the given year.

The Main Estimates include forecasts of statutory authorities for information purposes only. They represent approximately 59% of the total budgetary authorities for 2018-19, while the remaining 41% require parliamentary approval through appropriation bills.

1.1. Expenditure Plan and Main Estimates – Overview

The Government's Expenditure Plan and Main Estimates for 2018-19 outline $276 billion in budgetary spending authorities, as well as an overall increase of $600 million in the value of non-budgetary loans, investments and advances (Table 1-1). Of the budgetary total, $112.9 billion relates to authorities to be voted by Parliament.

Table 1-1 The Government's expenditure plan

($ billions)	**Budgetary**	**Non-Budgetary**
Voted	112.9	0.06
Statutory	163.1	0.54
Total	**276.0**	**0.60**

Source: Main Estimates 2018-19.

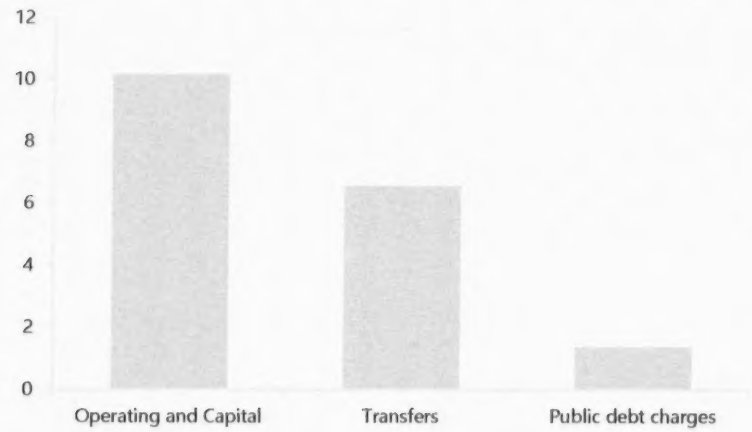
The total budgetary authorities of $276 billion represents an increase of approximately $18.1 billion (7.0 percent) compared to the total budgetary authorities outlined in the Main Estimates 2017-18. When compared to Estimates to date in 2017-18, the increase is $5.7 billion (2.1 percent).

The 2018-19 budgetary authorities will rise with anticipated funding requests in Supplementary Estimates A and B.

As shown in Figure 1-1, more than half of the $18.1 billion increase in budgetary authorities stems from operating and capital expenditures, which are up by $10.2 billion (14.1 percent). Included in total operating and capital expenditures is $7.0 billion related to the new Budget Implementation vote for new measures approved and identified in Budget 2018. Budgetary authorities for transfers have an increase of $6.6 billion (4.0 percent), while public debt charges are up $1.4 billion (6.3 percent). This is the first time that estimated public debt charges have risen in the Main Estimates since 2010-11. It is primarily due to increases in interest rate forecasts.

Figure 1-1 Composition of changes in budgetary authorities (year-over-year)

$ billions



Source: Treasury Board of Canada Secretariat, Main Estimates 2018-19.

Note: The figure compares Main Estimates 2018-19 to Main Estimates 2017-18.

Major transfers to persons, including elderly benefits and children's benefits are forecast to increase by $2.0 billion (2.1 percent) from the 2017-18 projection to $98.1 billion. Major transfers to other levels of government, including equalization payments and the Canada Health Transfer, are forecast to increase by $3.4 billion (4.9 per cent) to $73.5 billion.

The federal organizations with the largest increase in their total budgetary authorities from the Main Estimates 2017-18 are Treasury Board of Canada Secretariat ($7.1 billion, 108.2%)[3], Finance ($3.8 billion, 4.2%), Employment and Social Development Canada ($3.5 billion, 6.1%), National Defence ($1.7 billion, 9.2%), and Immigration, Refugees and Citizenship Canada ($709 million, 43.0%).[4]

Significant decreases in budgetary authorities include the Office of Infrastructure Canada ($861 million, 12.3%), Public Services and Procurement

Canada ($459 million, 12.4%), Canada Mortgage and Housing Corporation ($308 million, 11.2%), PPP Canada Inc. ($280 million, 100%), and Shared Services Canada ($179 million, 10.4%).[5]

The value of non-budgetary authorities has increased from the previous Main Estimates. Canada Mortgage and Housing Corporation has a net increase of $385 million, most of which is attributable to new loan advances to the Affordable Rental Financing Initiative, identified in Budget 2016. Employment and Social Development Canada's implementation a flat-rate student contribution model, used to determine eligibility for the Canada Student Loans Program, represents an increase of $376 million. This was also outlined as part of Budget 2016.

2. Estimates Reform

There are important changes to the timing and composition of the 2018-19 Main Estimates. Both reflect an effort on the part of the Government to improve alignment between the Budget and the Estimates.

First, the Government delayed presenting Parliament with these Main Estimates by several weeks, which are usually tabled prior to the budget. According to the Government, the change in timing will improve alignment by allowing measures announced in the budget to be included in the main estimates, provide more coherent information to Parliamentarians, as well as remove the need for a spring supplementary estimates. Given this delay, the Government was required to bring forward an "Interim Estimates" in mid-February to support Appropriation Bill #1, thus ensuring that the Government had funding to begin the current fiscal year.

Second, Appropriation Bill #2 includes a new central vote within the Treasury Board of Canada Secretariat (TBS) of $7.0 billion for the implementation of Budget 2018 spending measures (Treasury Board Central Vote 40). A list of the potential allocations to departments and agencies from this central vote are contained in an appendix in the Main Estimates document, which replicates the guidance already provided in Budget 2018.[6] TBS has also published online tracking documents which will be updated monthly as these funds are allocated.

As of April 16th, 2018, Treasury Board (TB) has approved $221 million of the total $7.0 billion (3.1 percent) for Budget 2018 measures, which is spread across 13 unique measures.[7] In comparison, Supplementary Estimates A 2017-18, which were tabled in May 2017, contained 19 Budget 2017 measures worth $994 million.[8] As such, parliamentarians will be presented with fewer vetted Budget measures for their consideration.

Treasury Board Central votes are not new. In recent years, TBS has had no less than five. These relate to the TBS's responsibilities for overall federal administrative management:

- Two relate to money that has been authorized by Parliament in previous years, lapsed by departments and agencies, and now planned to be spent in the current year (that is, the Operating Carry Forward and Capital Carry Forward).
- Two contain funding for staff costs incurred by federal departments and agencies regarding the implementation of new collective agreements and other benefits (that is, Compensation Adjustments and Paylist Requirements).
- One is a central reserve held by TBS to address "urgent and unforeseen" spending pressures (that is the Contingency Reserve).[9]

While the use of Central votes is not new, the governance arrangements regarding Treasury Board Vote 40 are somewhat novel. Currently, the standard process is that all funding presented to Parliament has already gone through the scrutiny of the Treasury Board submission process, and has been approved by TB.[10] As noted by the Government, one of the key roles of TB is to act as an "expenditure manager", as "it examines the proposed spending plans of government organizations before they are tabled in Parliament (e.g., Estimates), and reviews program spending in the government to ensure resources are directed to programs and activities that remain government priorities and achieve value for money."[11]

With the money requested for TB Vote 40, TBS is effectively requesting that Parliament provide funding in advance of this scrutiny. To this point, only "urgent and unforeseen" pressures funded through the Contingency Reserve (typically $750 million per year, one-tenth of the value of the new Budget Implementation Vote) have been treated in a similar manner.

As noted in previous PBO reports, there are often significant differences between the money announced in the Budget versus what is ultimately approved by Treasury Board and presented to Parliament for its review. PBO tracked the spending measures identified in Budget 2016 through the 2016-17 estimates and found that 31% of these measures had variation, both higher and lower, compared to what was initially indicated in the budget.[12] This suggests that TB provides meaningful, value-added review of planned Government spending.

Ultimately, parliamentarians will need to judge whether the Government's most recent efforts to align the Budget and the Estimates results in an improvement in their oversight role, and if they are willing to accept incomplete information and weaker spending controls to help the Government to expedite the implementation of Budget measures.

Compared to the old approvals system, TBS due diligence will no longer be performed on new Budget spending measures before the Government asks for Parliament's assent. Instead, this important review step will happen after the fact. In addition, Parliament's legal controls on money will no longer include which departments and agencies have authority to spend, nor will the public service be circumscribed regarding how the funding will be spent (that is, whether it is operating, capital or transfer payments). It is unclear that the proposed vote wording would restrict the Government to funding each Budget 2018 measure in the amount set out in the Budget Plan for each Department and Agency, rather than changing the allocations across any initiative mentioned in Budget 2018. In doing so, the Government could spend money more quickly.

As the President of the Treasury Board and PBO have noted previously, a significant part of Budget implementation delays stem from the Government's own internal processes. Were these to be streamlined, the Government would be able to spend money more quickly, without the need for Parliament to cede information and control. It is unclear what the Government intends to do to address this issue. However, given that the Treasury Board Secretariat vetted fewer Budget 2018 measures (13, $221 million) compared to last year (19, $994 million), there is no evident progress.

Over the past twenty years, the Executive Branch has gradually ceded additional support and control to Parliament. This began with the creation of Departmental Results documents in the 1990s, followed by the creation of the Office of the Parliamentary Budget Officer, online publication of greater budgeting information, and more recent pilot programs on "purpose-based appropriations". Treasury Board Vote 40 would represent an important inflection point in this trend, where Parliament would now receive incomplete information and be able to exercise less control.

2.1. Alignment with Departmental Plans

The 2018-19 Departmental Plans were also tabled in Parliament on the same day as the Main Estimates. Departmental Plans (DP), along with the Departmental Results Reports (DRR), combine to represent Part III of the Estimates. DPs are considered as the department's annual expenditure plan which highlights its priorities, planned results, as well as required resources for the upcoming three fiscal years. These documents are prepared by each individual department and agency and are tabled by the President of the Treasury Board on behalf of the Ministers responsible for those organizations.

As part of the Government's four-pillar plan to change the Estimates process, Pillar 4 focuses on improving the annual departmental reports (DPs and DRRs) so that "parliamentarians are provided with better information on

planned spending, expected outcomes and actual results."[13] PBO reviewed the 2018-19 Departmental Plans for all departments which have planned spending in the current fiscal year for measures identified in Table A2.11 in Budget 2018. We were unable to identify any planned spending and results tied to these measures.[14] [15]

3. Major Expenditures

3.1. Infrastructure Spending

The Office of Infrastructure Canada seeks approval for total budgetary authorities of $6.2 billion in 2018-19, compared to the total estimates to date of $7.1 billion in 2017-18. As indicated in these Main Estimates, the primary reason for this decrease of $974 million (13.7 percent) is attributed to "funding related to existing programs, including the Phase 1 of the Investing in Canada Infrastructure Program."[16]

As noted in previous PBO reports, there have often been significant delays in the rollout of planned infrastructure spending, which in turn causes delays in payments from the federal government to sub-national governments. These delays have led to infrastructure programs historically being prone to lapsing authorities.[17]

The Government recently announced that $11.8 billion of the $14.4 billion budget for Phase 1 of the Investing in Canada Infrastructure Plan has been approved.[18] In December 2017, the PBO submitted information requests to 32 departments, agencies and Crown Corporations responsible for all Phase 1 funding, and was able to identify $7.2 billion attributed to projects.[19]

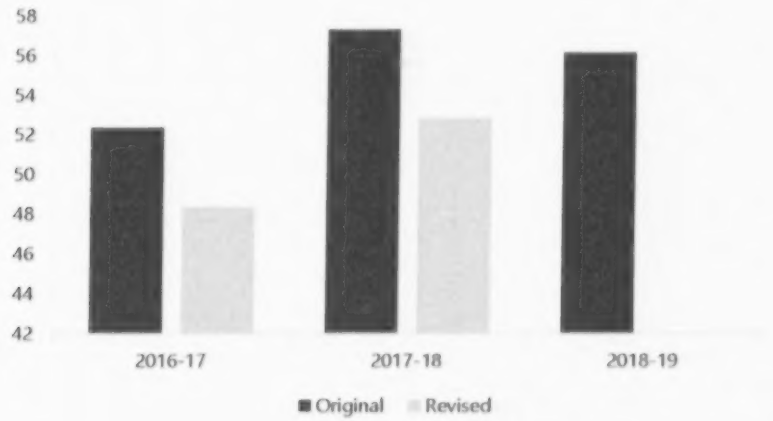
While the specific reasons for these delays were not requested as part of the analysis, there are potential factors that contribute to the delays. For example, there is usually a lag between the time of the actual announcement of programs and the signing of agreements with subnational governments, which are responsible for implementing the majority of public infrastructure investments. In addition, it often takes time for sub-national governments to identify specific projects when they already have their capital spending frameworks and infrastructure plans in place.

As indicated above, sub-national governments represent the overwhelming majority of public infrastructure investment. When looking at the past three budgets for all provinces, there has been a consistent revision downwards in planned capital spending. Figure 3-1 compares the total planned capital

spending amount identified in that current year's budgets with the revised figure from the subsequent year's budgets.

Figure 3-1 Planned Capital Spending by All Provinces

$ billions



Sources: Provincial Budgets from 2016-2018.

Notes: There have been no revisions yet to the 2018-19 provincial budgets.

The provincial budgets for Quebec, Saskatchewan, and Nova Scotia do not provide revised amounts for the previous years; therefore, an assumption was made to set the revised amount equal to the original amount.

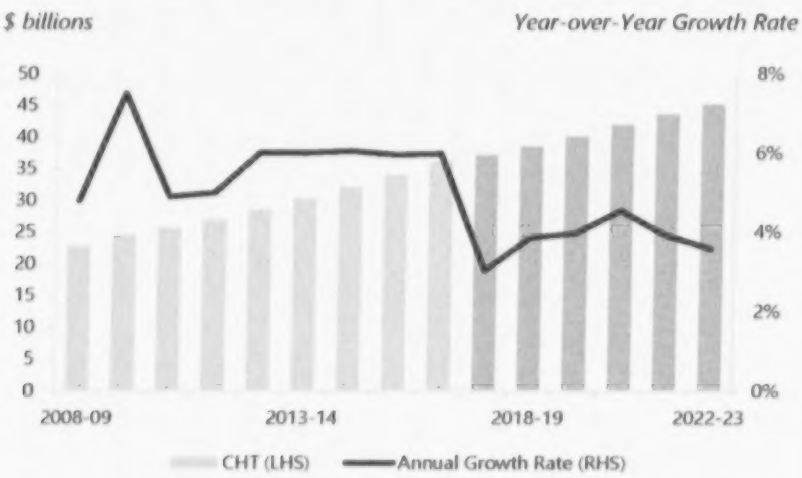
3.2. Federal Spending on Health Care and Elderly Benefits

Forecasted statutory spending, which is authorised through pre-existing legislation, is set to increase in 2018-19 by $7.2 billion (4.6 percent), compared to the total estimated statutory spending in 2017-18.

The Canada Health Transfer (CHT), which represents the largest federal transfer to provinces and territories, is projected to increase by $1.4 billion (3.9 percent). The CHT provides financial assistance to provinces and territories, which are responsible for Canadian healthcare.

Beginning in 2017-18, the CHT is calculated to automatically grow in line with the three-year moving average of nominal GDP growth; however, the minimum annual growth rate is set at 3 percent. The CHT is also allocated to all provinces and territories on an equal per capita basis. Based on these policy changes, the CHT is forecasted to grow at a lower rate over the medium term than the years preceding these changes, as shown in Figure 3-2.

Figure 3-2 Canada Health Transfer Growth Rate



Sources: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, Main Estimates 2018-19; Parliamentary Budget Officer, Economic and Fiscal Outlook April 2018.

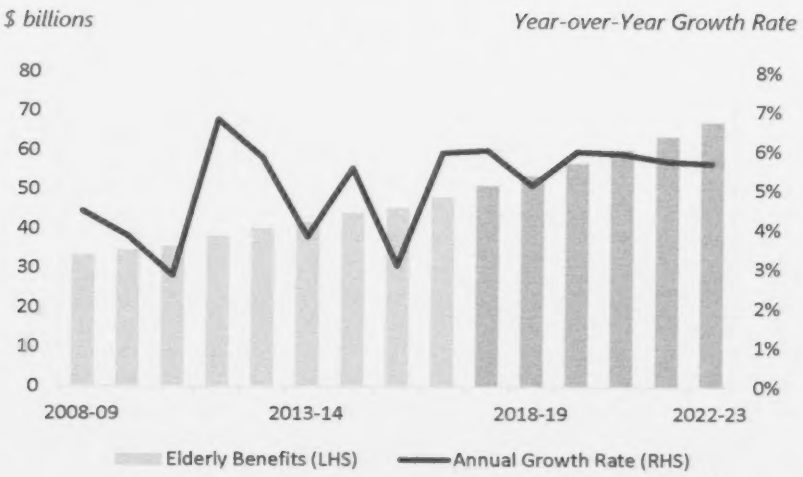
Note: Figures prior to 2017-18 are actuals. Figures for 2017-18 and 2018-19 are estimates. Figures for 2019-20 and later are PBO projections.

As noted in previous PBO reports, health spending across all provinces and territories are projected to grow faster than nominal GDP.[20] A significant factor is the ageing of the Canadian population, as total per capita government health expenditures increase as individuals get older. Given that the CHT is tied to nominal GDP, it is expected that the CHT will decrease as a share of total health spending over the long term.[21]

As the Canadian population ages, there will also be an increase in the eligibility for Elderly Benefits. Old Age Security (OAS), which is currently the largest federal program, provides a monthly pension payment to most seniors who are over 65 and meet the eligibility requirements.[22] In addition, OAS can provide other benefits for low-income pensioners, such as Guaranteed Income Supplement and Allowance Payments.

Federal spending on Elderly Benefits are set to increase by $2.6 billion (5.1 percent) to a total of $53.7 billion in 2018-19, stemming from the increase in the number of beneficiaries and average monthly payment. This is consistent with historical trends, as shown in Figure 3-3.

Figure 3-3 Elderly Benefits Growth Rate



Sources: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, Main Estimates 2018-19; Parliamentary Budget Officer, Economic and Fiscal Outlook April 2018.

Note: Figures prior to 2017-18 are actuals. Figures for 2017-18 and 2018-19 are estimates. Figures for 2019-20 and later are PBO projections.

Notes

1. The Business of the Treasury Board. https://www.canada.ca/en/treasury-board-secretariat/services/treasury-board-submissions/business-treasury-board.html.
2. *Old Age Security Act*. http://laws-lois.justice.gc.ca/eng/acts/O-9/.
3. TBS' significant increase can be explained by the new Budget Implementation vote (Treasury Board Vote 40), which seeks $7.0 billion for the Budget 2018 measures.
4. This does not include Indigenous Services Canada, as it was created during the 2017-18 fiscal year, and therefore was not included in the 2017-18 Main Estimates.
5. Health Canada and Indigenous and Northern Affairs Canada were not included given that certain programs were transferred to the new Indigenous Services Canada department.
6. Budget 2018. Table A2.11. https://www.budget.gc.ca/2018/docs/plan/anx-02-en.html#41-Policy-Actions-and-Budget-Investments-by-Department-(Cash-Basis)
7. Approximately $21 million of the total $7.0 billion identified for Budget 2018 spending measures has been classified as withheld. As indicated by TBS, this represents "Expenditures to be made through other authorities, such as statutory expenditures for Employee Benefits Plans, or amounts set aside to cover the costs of office accommodation and information technology services." https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2018-19-estimates/2018-19-sources-uses-budget-implementation-vote-department.html
8. Supplementary Estimates (A) 2017-18. http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/Supps%20%28A%29%202017-18/Supplementary%20Estimates%20A%202017-18_EN.pdf
9. The Government's Expenditure Plan and Main Estimates for 2018-19. https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2018-19-estimates.html
10. Treasury Board Submissions Overview. https://www.canada.ca/en/treasury-board-secretariat/services/treasury-board-submissions/treasury-board-submissions-overview.html#tbs2
11. Ibid, Note 1.
12. Following the Dollar: Tracking Spending and Tax Measures from Budget 2016. http://www.pbo-dpb.gc.ca/en/blog/news/Tracking_Budget_2016.
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14. TBS' 2018-19 Departmental Plan includes the $7.0 billion Budget Implementation vote in planned spending under its core responsibility of Spending Oversight; however, the individual departments identified in Table A2.11 of the Budget 2018 did not include these measures in their individual Departmental Plans.
15. PBO has uploaded an excel spreadsheet as supplementary information which tracks Budget 2018 allotments with planned results.
16. Ibid, Note 9.
17. Budget 2018: Issues for Parliamentarians. http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Budget%202018%3A%20Issues/Budget%202018_Issues_for%20Parliamentarians_EN.pdf
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19. Status Report on Phase 1 of the New Infrastructure Plan. http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Infrastructure%20update/Status%20Report%20on%20Phase%201%20of%20the%20New%20Infrastructure%20Plan_EN.pdf
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21. Ibid, Note 20.
22. Old Age Security – Overview. https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security.html